



A Report  
to the  
Board of  
Supervisors

*Maricopa County  
Internal Audit  
Department*

**Ross L. Tate**  
County Auditor

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# Library District

*Controls Over Contracts and  
Information Technology Need  
Improvement*

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March ■ 2011

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**The mission of Maricopa County** is to provide regional leadership and fiscally responsible, necessary public services so that residents can enjoy living in a healthy and safe community.

**The mission of the Internal Audit Department** is to provide objective information on the County's system of internal controls to the Board of Supervisors so they can make informed decisions and protect the interests of County citizens.

The County Auditor reports directly to the Maricopa County Board of Supervisors, with an advisory reporting relationship to the Citizen's Audit Advisory Committee.

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March 31, 2011

Andrew Kunasek, Chairman, Board of Supervisors  
Fulton Brock, Supervisor, District I  
Don Stapley, Supervisor, District II  
Max W. Wilson, Supervisor, District IV  
Mary Rose Wilcox, Supervisor, District V

We have completed our FY 2011 review of the Library District. This audit was performed in accordance with the annual audit plan approved by the Board of Supervisors. The specific areas reviewed were selected through a formal risk-assessment process.

We recommend that improvements be made in the following areas:

- Contract Procurement and Oversight
- Information Technology
- Surplus Book Disposal
- Cash Controls
- Fee Waivers

Within this report you will find an executive summary, specific information on the areas reviewed, recommendations for improvement, and the Library District's response to our recommendations. We have reviewed this information with Harry Courtright, Library Director, and appreciate the excellent cooperation provided by management and staff. If you have any questions, or wish to discuss the information presented in this report, please contact Eve Murillo at 506-7245.

Sincerely,

A handwritten signature in dark ink that reads "Ross L. Tate".

Ross L. Tate  
County Auditor

# Executive Summary

## **Library Materials and Services Contract (Page 9)**

The Maricopa County Library District (MCLD) uses the Library Materials and Services Contract to obtain a majority of its books, audio, video, and other materials and services. We reviewed the procurement process and a variety of contract expenditures to determine compliance with procurement procedures and contract pricing terms. We found procurement documents were complete; however, contract revisions affected cost effectiveness, and renewals were issued despite concerns. In addition, we found \$81,000 in overpayments and accumulated credits due to unsupported discount rates or incorrect price adjustments, and approximately \$96,000 that could be saved annually by purchasing rather than leasing DVDs. MCLD should ensure the effectiveness of its procurement and contract oversight processes.

## **White Tank Construction Contract (Page 16)**

MCLD contracted with Mortenson Construction for the design and construction of the White Tank Branch Library. We reviewed the procurement process and construction expenditures for compliance with procurement laws and contract pricing provisions. We found that MCLD was mostly in compliance with procurement requirements and almost all costs were billed in compliance with contract terms. However, we found issues with vendor evaluations, contract solicitation, billing, and use of restricted funds. Failure to follow procurement policies and procedures reduces the level of transparency and may expose MCLD to legal and financial risks. MCLD should arrange for an independent post-construction financial review of library funds used, and work with the County and Mortenson to obtain any identified reimbursement.

## **Information Technology (Page 21)**

MCLD lacked formal policies, procedures, and processes for security management, access controls, configuration and change management, disaster recovery planning, segregation of duties, confidential data handling, data completeness and accuracy, and user training. This lack of formal policies has resulted in ad hoc processes and users with inappropriate levels of system access. MCLD's IT management should establish formal IT policies, procedures, and processes, and ensure that policies are followed.

## **Disposal of Surplus Books (Page 24)**

MCLD obtained Board approval to donate books, DVDs, CDs, and other materials withdrawn from circulation, as required by County Procurement Code and Arizona Revised Statutes. However, MCLD has not established a formal agreement with the recipients stipulating that groups be nonprofit organizations or how proceeds should be distributed. MCLD should establish a formal agreement with library "Friends" groups and research and evaluate other disposal methods that might provide additional revenues or benefits for MCLD.

### **Cash Controls (Page 27)**

MCLD has established cash handling policies and procedures, which address most cash controls. We conducted surprise cash counts at eight branches and reviewed 15 monthly bank reconciliations; there were no material cash shortages, and bank reconciliations were being completed regularly. However, cash handling policies were not always followed, and we noted several control weaknesses. MCLD is exposed to an increased risk of cash theft and loss when funds are inadequately secured and improperly reconciled. Deposits not made in a timely manner expose MCLD to potential fraud and theft. MCLD should ensure receipts are adequately secured, cashiers comply with cash handling policies, and deposits are prepared and controlled in accordance with County policy.

### **Fee Waivers (Page 30)**

MCLD policy requires that staff obtain management approval prior to waiving fines and fees above \$6. However, it appears that MCLD branch staff has the ability to waive fines and fees above \$6 without management approval. We sampled 49 transactions and found that 71% of the waivers did not have management approval. Lack of controls and inadequate management oversight can expose MCLD to fraud and abuse. MCLD should strengthen system controls and improve employee awareness of policies and procedures.

# Introduction

## Background

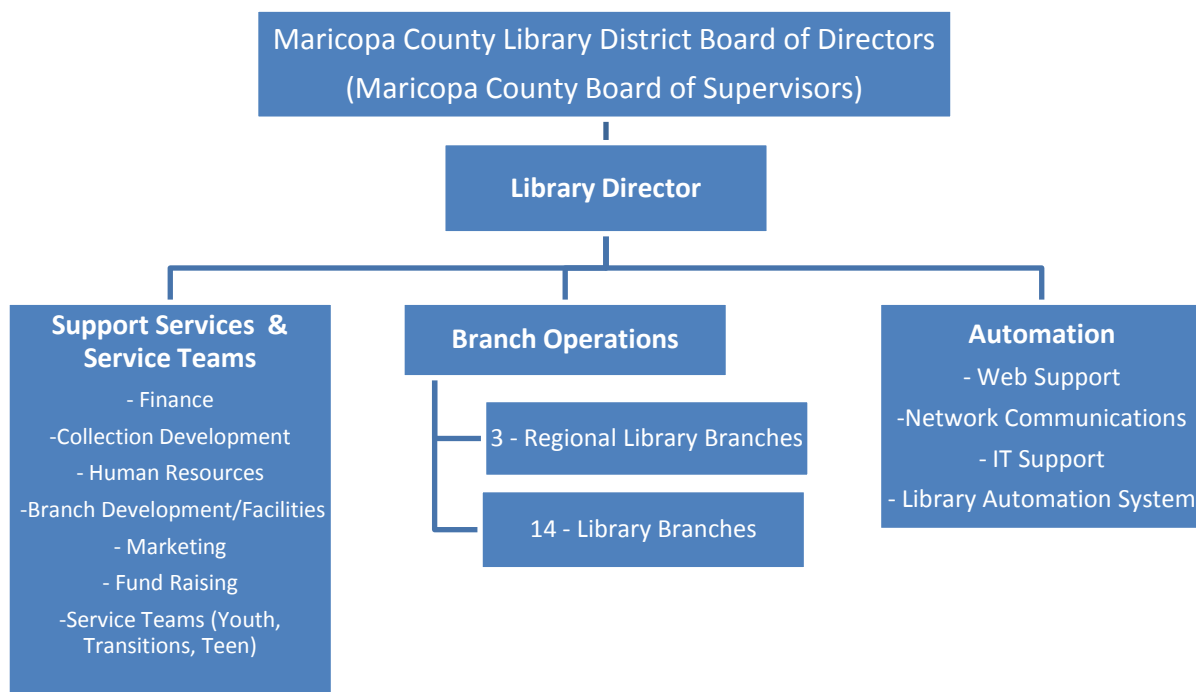
The Board of Supervisors established the Maricopa County Library District (MCLD) in 1987 pursuant to Arizona Revised Statutes 11-901 and 48-3901. The statutes allow the County to create a special taxing district and levy secondary property taxes sufficient to fund a library district. The County's Board of Supervisors is the Library District's Board of Directors (Board). The tax is paid by all Maricopa County residents.

## Mission

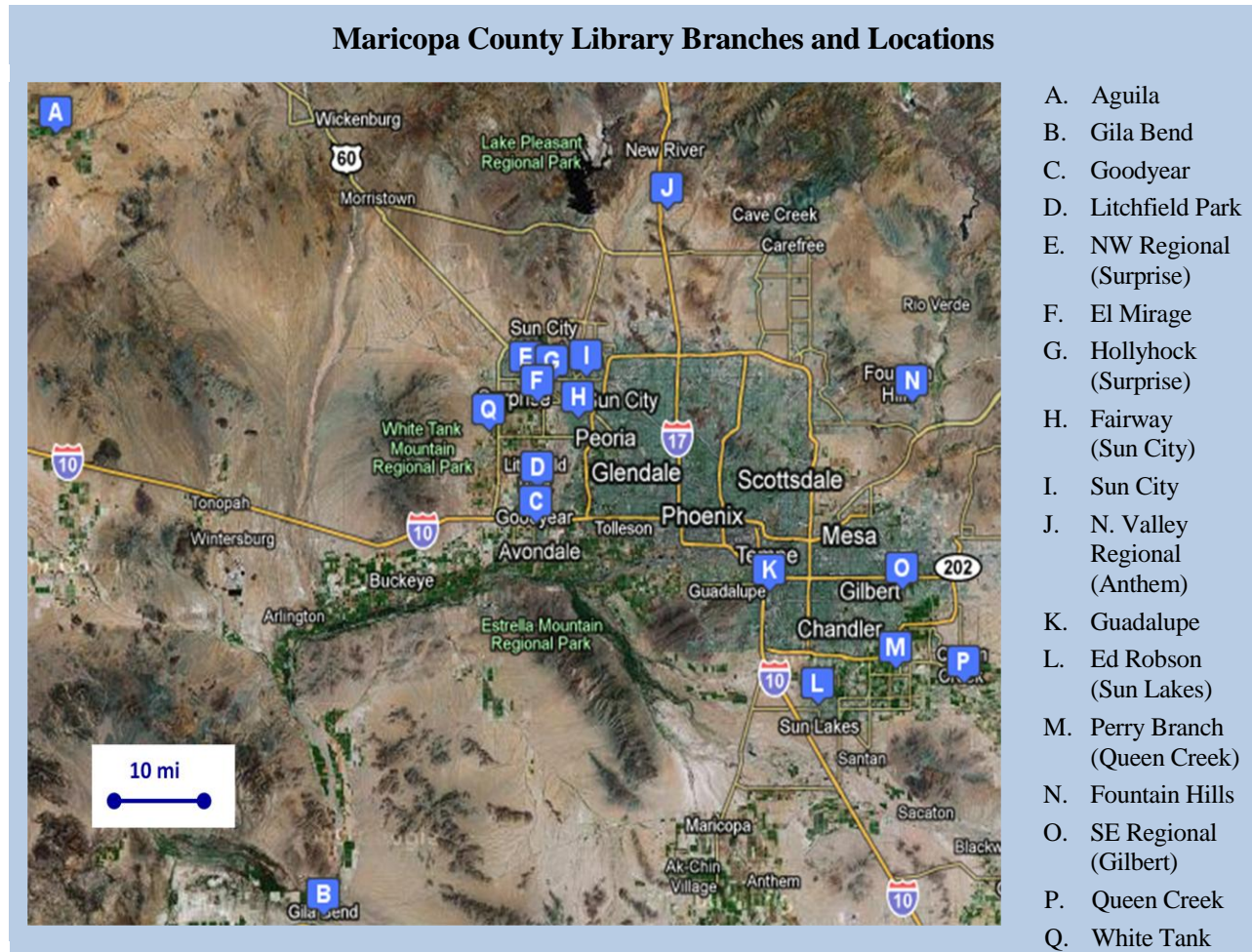
The mission of MCLD is to “provide access to a wealth of informational and recreational resources for people of all ages and backgrounds so that they may have the opportunity to expand their horizons through reading and learning.”

## Organization

MCLD has 3 regional and 14 branch libraries. The FY 2011 adopted budget authorized 172 regular staff positions with approximately 50 in support service and the remainder in the branches. MCLD also uses its funds to hire additional part-time temporary Librarians, Library Paraprofessionals, Library Assistants and Library Pages. The chart below illustrates the current organizational structure.



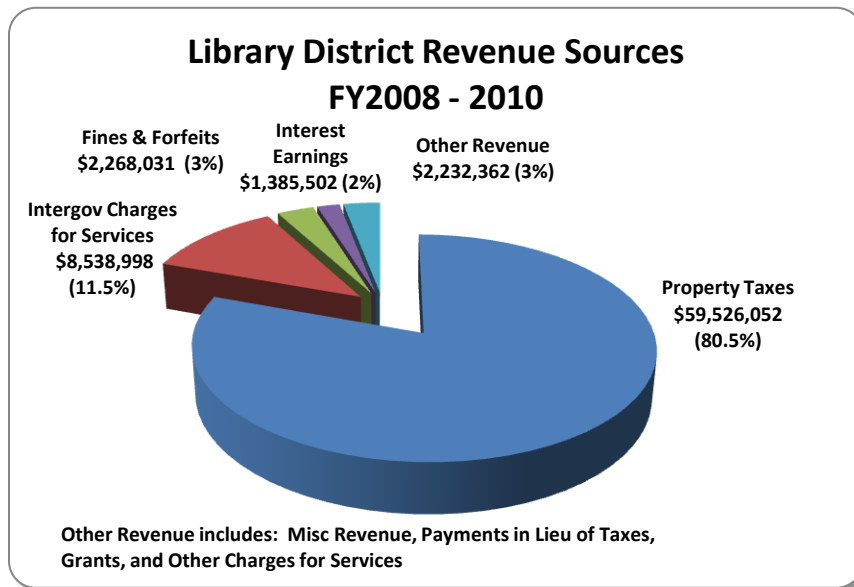
Libraries are primarily located on the outskirts of the metro area as shown on the map below. This is consistent with MCLD's goal of serving unincorporated areas, cities, and towns with populations under 50,000, and partnering with other cities, towns, and school districts to run their libraries. This map includes a new branch library that opened in November 2010 at the entrance to White Tank Regional Park (location Q).



## Operating Budget

Between FY 2008 and FY 2010 MCLD's budget averaged \$24.5 million in revenues and \$22.6 million in expenditures. Also, \$5.1 million was used for capital outlays for the construction of the new White Tank Library.

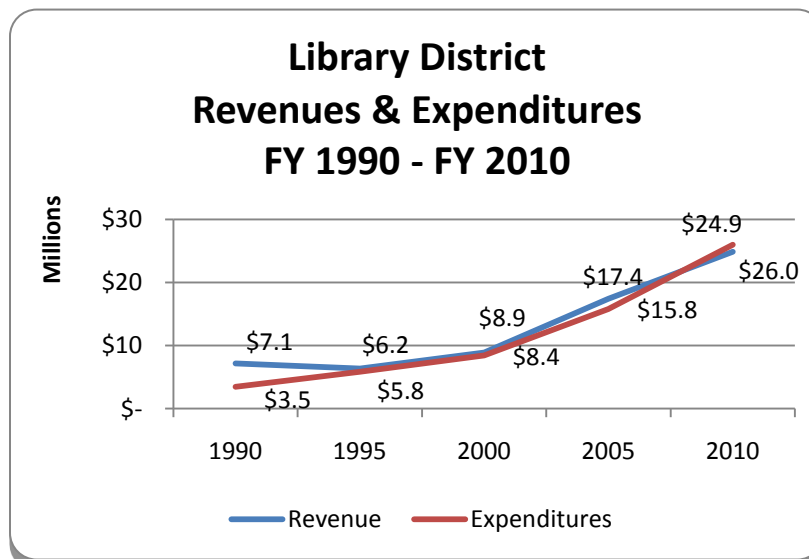
Over the last 20 years MCLD has experienced a steady increase in tax revenue largely due to the significant increase in property valuations between 2000 and 2005. Between FY 2008 and FY 2010, property tax revenue averaged \$19.8 million annually or 80.5% of total revenue. Total revenue sources from FY 2008 through FY 2010 are on the next page. The Board of Supervisors determines the annual tax apportionment rate in order to maintain a flat levy.



**Property taxes make up over 80% of MCLD's revenues**

*Source: IA analysis of Advantage Financial System General Ledger data*

The following chart shows the revenue and expenditures trend from FY 1990 through FY 2010.








**Revenues and expenditures have increased steadily since FY 1995**

*Source: IA analysis of Comprehensive Annual Financial Report data*

## Program Operations

MCLD serves all Maricopa County residents. The four primary services include print and media materials, electronic resources including online and downloadable media offerings, information services, and library programs. MCLD also provides a Reciprocal Borrowing Program which allows any County resident to use any participating public library in the County without a fee. The table on the next page highlights other MCLD services.



	<p><b>Adults</b></p> <p>Bestsellers, popular materials, Deweyless (organized by topic with multiple copies of bestsellers, like bookstores)</p>
	<p><b>Kids</b></p> <p>Early learning/literacy, story times, parents' corner, homework help, summer reading program</p>
	<p><b>Teens</b></p> <p>Summer reading program, teen bestsellers, teen events</p>
	<p><b>On-Line Research</b></p> <p>On-line databases, reference materials, newspapers, magazines, and computer access</p>
	<p><b>Downloadable Media</b></p> <p>Electronic books, audio, and music</p>

*Source: MCLD Website*

### *Information Technology (IT)*

MCLD uses Polaris, an off-the-shelf IT application built specifically for managing library operations. Polaris is the central repository for all library operations data including customer accounts and catalogs. It also allows MCLD to provide information to certain suppliers and partners electronically. MCLD uses other applications such as point of sale software and public computer access management software to interface with Polaris. Data from these applications is stored and processed in Polaris, which is maintained centrally in MCLD's secure data center. Citizens use Polaris on the web to access the on-line catalog and their library accounts, review items checked out, and reserve books and materials.

MCLD has 392 computers for public use and offers Wi-Fi (wireless Internet access) in 94% of its branches. MCLD uses Internet filtering software to prevent users on public computers or Wi-Fi from accessing inappropriate material and thus maintaining compliance with federal and state laws. State law also requires MCLD to protect the confidentiality of library users' borrowing and use records.

## **Scope and Methodology**

### Audit Objectives

The objectives of this audit were to determine if:

- Controls have been established over contract procurement
- Contract purchases comply with contract terms
- Controls have been established over cash
- Controls are in place to ensure fee waivers are appropriate and comply with MCLD policies
- Disposed items comply with Procurement Code and County policies, and if a more beneficial method of disposal is available
- Information system controls provide reasonable assurance that MCLD is in compliance with A.R.S. 34-502, A.R.S. 41-1354, and the Federal Communications Commission's Children's Internet Protection Act
- IT general controls over MCLD systems are appropriate
- Polaris application controls provide reasonable assurance that data is being accurately processed, stored, and reported by the system

### Audit Timeframe

Our audit included data from March 2006 to October 2010.

### Auditing Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. These standards require the following:

- An independent audit staff and audit organization
- An objective audit staff performing the work
- A competent staff, current with continuing education requirements
- A system of quality control procedures
- Sufficient and appropriate evidence based on audit objectives

# District Reported Accomplishments

## **MCLD has provided the Internal Audit with the following information.**

### **The Library District:**

- Created a new method of arranging the collections in the branches that makes it easier for customers to locate what they want. The District has named it “Deweyless”. Eight branches have been converted and work is progressing on the remainder. The District has been recognized nationally and internationally for this innovation. Many libraries across the country are following the District’s example.
- Established the one customer service desk model that is also being replicated in libraries not only in Maricopa County but across the country. This ensures better customer focus and only one place for customers to go to get assistance.
- Saw its use (the number of items used) grow from 3.7 million in FY 2004-05 to over 7.4 million this past fiscal year -- an increase of 50.3%.
- Summer Reading Program which serves not only its 17 branches, but also 8 of the independent libraries in the county, had over 32,000 participants this past summer with a 44% completion rate.
- Purchases over 8.5 million new items per year and had over 3.5 million visitors this past year.
- Provides access for all public libraries and school libraries to a wide range of electronic resources costing the District over \$1.2 million dollars per year.
- Has over 430 computers for public use and wi-fi in all the seventeen branches.
- In 2010, opened a new branch that houses not only the library but a Maricopa County Parks Department Nature Center at the entrance to the White Tank Regional Park.
- Opened the first Recording Kiosk that allows customers to record documents in the Northwest Regional Library in Surprise and will soon open one at the Fountain Hills Branch.
- Continues to support a Reciprocal Borrowing Program that allows residents in the County to use any public library without a cost (except for Glendale).

### **Awards Received since 2009:**

**2010 Bright Ideas for Deweyless Libraries** - “Bright Ideas is an initiative that recognizes creative and promising government programs and partnerships. The initiative is offered through the Innovations in Government Program, a program of the Ash Center for Democratic Governance and Innovation at Harvard Kennedy School. For more information, please visit <http://innovationsaward.harvard.edu/BrightIdeas.cfm>.”

**2009 Library Journal’s The Political Winners of the Year Award** - **Max Wilson**, County Supervisor, Maricopa County Library District. Mr. Wilson's perseverance and dedication had made it possible to build a brand new LEED-certified library, saving taxpayers more than \$1 million by building it on county park land. The 29,000 square-foot White Tank Branch Library also will serve as a nature center for the County’s White Tank Mountain Regional Park.

**2009 National Book Foundation – Innovation in Reading Prize** – awarded for developing innovative means of creating and sustaining a lifelong love of reading - Maricopa County Library District received the award for its “Dewey-less” libraries. Of 150 applicants, the Library District was one of five national honorees to receive this inaugural award.

### **NACo Awards:**

**2009** - Library Dropped Dewey

**2009** – “*In Their Own Words: Holocaust Survivors Probe the Inconceivable*”

### **White Tank:**

**2011 - RED Award** (Real Estate & Development) Winner of “Sustainability” Award

**2011 - ALA Landmark Libraries** “Honorable Mention” (announcement is supposed to be private until May issue of Library Journal)

# Issue 1 Library Materials and Services Contract

## Summary

The Maricopa County Library District (MCLD) uses the Library Materials and Services Contract to obtain a majority of its books, audio, video, and other materials and services. We reviewed the procurement process and a variety of contract expenditures to determine compliance with procurement procedures and contract pricing terms. We found procurement documents were complete; however, contract revisions affected cost effectiveness, and renewals were issued despite concerns. In addition, we found \$81,000 in overpayments and accumulated credits due to unsupported discount rates or incorrect price adjustments, and approximately \$96,000 that could be saved annually by purchasing rather than leasing DVDs. MCLD should ensure the effectiveness of its procurement and contract oversight processes.

## Background

MCLD has adopted a philosophy of providing popular print, audio, and video materials to their customers. To maintain a mix of materials to keep its popular collection updated, MCLD purchased or leased over 136,000 (books, CDs, DVDs, and other) items costing nearly \$2.6 million during FY 2010.

In April 2006, MCLD established a five-year contract for Library Materials and Related Services (#05111). The contract was awarded to two vendors, Brodart Co. and Baker & Taylor Inc. There have been a total of seven contract revisions and two contract renewals since the contract was established. For print materials, both contracts have pricing provisions based on a book's binding and whether the item is considered trade, non-trade, or net. The terms are defined as follows:

- Trade – Fiction and non-fiction materials designed for the general consumer; these titles usually deal with a subject matter having broad mass appeal
- Non-Trade – Short discount items which include reference, scientific and technical, small press, university press titles and special books
- Net – Materials available at a net (0%) discount and may be applied to any binding

## Criteria

### *Procurement Requirements*

Procurement Requirements	
Source	Requirement
County Procurement Code MC1-308	Before renewing a contract, the director shall determine if a new solicitation is more advantageous.
County Procurement Code MC1-408	All specifications should promote overall economy for the County and encourage competition.

### *Contract Discount Rates*

Contract #05111 Pricing: Print and Audio Video Materials				
Material Format	Trade Discount		Non-Trade Discount	
	Brodart	Baker & Taylor	Brodart	Baker & Taylor
Hardcover	45%	46.1%	10%	11%
Paperback (Quality)	40%	42%	10%	11%
Music Compact Discs (CDs)	10%	26.3%	10%	26.3%
Digital Videodiscs (DVDs)	10%	29%	10%	29%
Note: Net Discount is 0% (no discount) for all material formats for both vendors				

### *Other Criteria*

Other Contract Requirements	
Program	Requirement
McNaughton DVD Lease	The contract does not define a price. It provides for an annual cost of \$124,875, and annual point allowance of 67,500 (\$1.85 per point).
Summer Reading Program	Discounts were based on the contracted discount schedule (previous table) plus a customer fulfillment fee of \$2.40 per item.
Collection Development (Vendor Selection)	Fees were based on material format plus a service fee per item (\$.25 for adult fiction and \$.45 for adult non-fiction and opening day items).

### Condition: Library Materials Contract Procurement

We reviewed the 18 major components of the procurement process and compared the documentation to the County's Procurement Code, and policies and procedures. All reviewed documents were in compliance except for one minor instance related to the final contract renewal in April 2010. This instance was discussed with Library management.

However, it appears that that one contract revision and both renewals may not have been the most cost effective approach and, therefore, incompatible with the intent of the Procurement Code. The revision adding Vendor Selection<sup>1</sup> to the contract did not fully explain the terms and conditions for this service, which had far greater pricing and cost implications than the \$.45 or \$.25 fee per book indicated. Specifically, the contracts did not state that the vendor who is awarded the Vendor Selection Service automatically receives the order for those books, regardless of cost. This action appears to conflict with the intent of the Procurement Code which seeks to promote overall economy and encourage competition. In addition, MCLD approved renewal of the contract in 2009, despite correspondence that suggests problems with both vendors. The contract was renewed again in March 2010 with no changes to pricing, programs, or service specifications.

### Condition: Compliance with Contract Pricing Provisions

We reviewed various FY 2008-FY 2010 vendor billings for compliance with contract pricing provisions. We found \$81,000 in overbillings that resulted from incorrect invoice pricing, unsupported discount percentages, and insufficient contract governance as illustrated in the table below. In addition, MCLD could have realized approximately \$96,000 in annual savings by purchasing rather than leasing DVDs.

Library Materials Contract Overpayments and Unused Accumulated Credits			
Service/Material	Vendor	Amount	Issue
DVD Leasing	McNaughton (Brodart)	\$33,781	For the two branches tested, points were being underutilized, and the Library was not analyzing its usage, resulting in unused points totaling \$33,781 for those branches. MCLD relies solely on the vendor to track credits. In addition, \$96,000 could have been saved annually by purchasing rather than leasing DVDs.
Print Materials	Brodart	\$39,683	MCLD did not receive the full trade discount allowed by the contract for the six months reviewed. Annually, the potential overpayment could be as high as \$80,000.
Summer Reading Program	Baker & Taylor	\$7,530	The fulfillment fee was billed at \$3.05 instead of contract rate of \$2.40. Total overpayment for FY 2010 is \$7,530.

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<sup>1</sup> Vendor Selection is a service where the vendor selects the books that the library should purchase.

Library Materials Contract Overpayments and Unused Accumulated Credits			
Service/Material	Vendor	Amount	Issue
Audio Video	Baker & Taylor	\$10	CDs were discounted at 26% instead of 26.3%. We did not calculate the total overbilling as MCLD did not have total annual purchases in an easily reviewable format. The four invoices reviewed resulted in a \$10 discrepancy.
<b>Total</b>		<b>\$81,004</b>	

Source: IA analysis of MCLD invoices and vendor downloads

### DVD Leasing

MCLD paid \$439,939 in FY 2010 to lease DVDs from McNaughton, a subsidiary of Brodart. The contract requires the purchase of a pre-determined number of points for each branch at the beginning of the year. McNaughton then converts these points into DVDs. MCLD was unable to provide us with the total number of points and DVDs received. Furthermore, the invoices do not identify how many points or DVDs a library purchased. MCLD personnel responsible for approving and paying these invoices were unable to describe how the point system worked and did not compare invoice amounts nor contract terms with actual DVDs received. MCLD and McNaughton indicate that they allocate unused points to other branches. However, MCLD relies solely on the vendor to track any credits and does not reconcile actual points used with points purchased at the branch level or at the district level to ensure unused points were allocated to other branches. The vendor provided documentation showing points used for two branches, Perry and Fountain Hills. These two branches had unused points totaling \$33,781 as illustrated in the following table.

Comparison of Purchased DVD Points to Unused DVD Points				
Library Branches	DVD Points Purchased	Unused DVD Points	Cost of Purchased Points	Cost of Unused Points
Fountain Hills & Perry	49,992	18,260	\$ 92,485	\$ 33,781
Total FY 2010 Cost of Unused Points for two branches reviewed				\$ 33,781

Source: McNaughton and MCLD

In addition, we reviewed all DVDs sent to the Perry Branch for the FY 2010 billing period and found MCLD's average cost to lease a DVD (not Blue Ray) such as *Iron Man II* or *Clash of the Titans* was \$26.57. If MCLD had purchased the same DVDs from Baker & Taylor they would have paid an average cost of \$20.11, a 24.3% savings over leasing. If the savings rate found at Perry Branch is consistent with all branches, MCLD could have saved over \$96,000 in FY 2010 by purchasing rather than leasing.



### *Print Materials*

We reviewed print material billings from both vendors for six months<sup>2</sup> and while we did not find any significant pricing discrepancies based on contract terms, we did find significant discrepancies in how frequently each vendor provided trade and non-trade discounts. In our sample, Baker & Taylor gave the trade (larger) discount over 95% of the time, while Brodart provided the trade discount 61.7% of the time.

We also reviewed 94 instances where MCLD purchased the exact same item from both Brodart and Baker & Taylor. MCLD received a trade discount from Baker & Taylor for all 94 items, while Brodart provided the trade discount only 66% of the time. Brodart was not able to provide support showing why they used the non-

trade and net discount rates instead of the trade discount. If Brodart had applied the trade discount instead of a non-trade or net discount, MCLD would have saved \$39,683 for the items invoiced during the six months reviewed. On an annual basis, this could result in savings up to \$80,000.



**Library Print Materials**

### *Summer Reading Program*

MCLD provides incentives to valley youths to encourage them to increase their reading levels through the Summer Reading Program (SRP). Once children meet certain objectives for the program, they are rewarded with prizes and or vouchers to receive a free book. Baker & Taylor provides this service. We reviewed all SRP items invoiced by Baker & Taylor in FY 2010. All were billed a customer fulfillment fee of \$3.05 instead of \$2.40 allowed by the contract. This increased the cost of the program by \$7,530. MCLD management indicated they had negotiated a different processing fee with the vendor, but had failed to amend the contract and notify Materials Management (MM) of the pricing change.

We also reviewed one invoice for the FY 2010 billing period and MCLD's process for reviewing the invoices. We found the invoice did not show the processing fees, cover prices, or discount percentages. MCLD staff had to perform a series of time consuming calculations to verify the invoice pricing and reconcile item quantities to vouchers issued. We also noted that the contract has insufficient detail regarding discount rates for SRP items. Both paperback and board books<sup>3</sup> were purchased, however the contract only listed a discount rate for paperback books.

### *Audio Video Materials*

We reviewed 10 invoices from Baker & Taylor for audio video materials to determine if purchases complied with contract pricing provisions (MCLD does not purchase audio video materials from Brodart). These invoices included billings for DVDs and CDs. We found Baker & Taylor was only providing a discount of 26% for CDs instead of the contract rate of 26.3%. The 10 invoices had overcharges for CDs amounting to \$10.42. We reviewed a download of all

<sup>2</sup> August 2010, March 2010, September 2009, June 2009, November 2008, and May 2008.

<sup>3</sup> A board book is a type of book printed on thick paperboard. It is very durable and is intend for small children.



billings for the months of August 2010, March 2010, September 2009, and June 2009 and found the error occurred in all instances for the months reviewed.

### *Collection Development/Vendor Selection*

MCLD has outsourced the selection of a majority of adult fiction and adult non-fiction titles to Brodart. Brodart bases the titles and quantities ordered on each library's usage history and compares it with new book releases. The MCLD Collection Development Manager reviews the order prior to providing final approval.

We reviewed one invoice for collection development service pricing. We did not find any discrepancies between invoice pricing and contracted pricing provisions. However, we found that MCLD pays the collection development fee even if MCLD never receives the item. For the invoice reviewed, there were 2,403 adult fiction items selected. MCLD paid for selection services on all of those items, however, 147 were not received. Because Brodart acts as a buyer, they could easily charge MCLD a fee for selected items they never intended to ship or items with lower or no discounts, resulting in higher costs to MCLD.

### **Effect**

The risk of fraud, abuse, procurement code violations, and improper payments is increased by (1) not effectively reviewing and approving invoices, (2) not following County procurement procedures when negotiating contract prices, and (3) not requiring that invoices contain sufficient detail. MCLD proceeded with contract revisions and renewals that may not have been as cost effective to the County as a new solicitation and as a result, MCLD overpaid for library materials.

### **Cause**

MCLD overpaid for library materials because contract terms were insufficient. The contract did not define the terms trade, non-trade, and net that are the basis for discount percentages and did not require vendors to include cover price, item quantities, discount percentages, discount categories, and sub-totals on invoices to facilitate MCLD review for compliance with contract terms.

In addition, overpayments occurred because employees responsible for purchasing contract materials and approving invoice payments were not familiar with contract terms and there was no formal process for reviewing, approving, and paying vendor invoices. Also, MCLD employees may not have been aware that they should have consulted with MM and amended the contract when negotiating new summer reading program pricing provisions. Communications between MCLD and MM were ineffective in conveying procurement and contract oversight issues and best practices. MCLD may not have effectively communicated to MM the ramifications (such as total financial impact) of seemingly minor contract change requests.

### **Recommendations**

MCLD management should:

- A. Work with Materials Management regarding any changes to contract terms and ensure that the Library Materials and Services Contract:

- Thoroughly explains all requirements and services, includes required service levels and penalties, and establishes problem escalation procedures
  - Requires that invoices contain sufficient detail (such as quantities, amounts, and discount rates) to facilitate proper oversight
- B.** Create procedures requiring proper contract oversight, and ensure employees are familiar with those procedures and enforce contract terms.
- C.** Seek reimbursement or credits for overpayments.
- D.** Consider buying rather than leasing DVDs if doing so would result in cost savings.

# Issue 2 White Tank Construction Contract

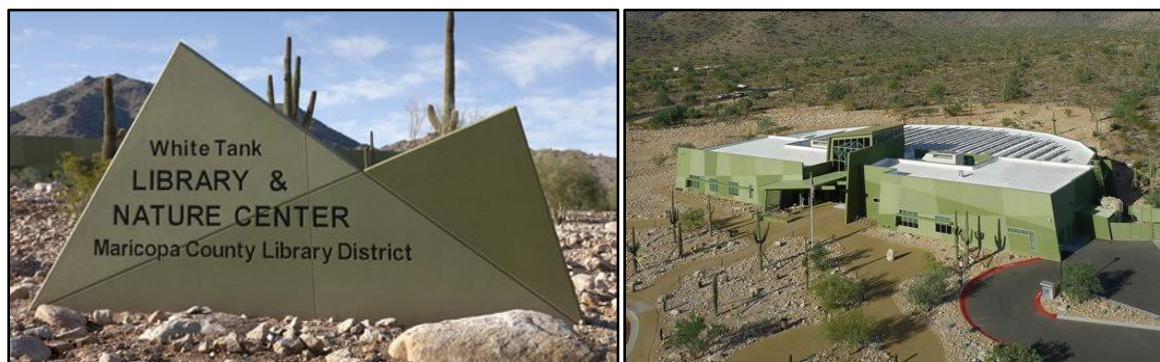
## Summary

MCLD contracted with Mortenson Construction for the design and construction of the White Tank Branch Library. We reviewed the procurement process and construction expenditures for compliance with procurement laws and contract pricing provisions. We found that MCLD was mostly in compliance with procurement requirements and almost all costs were billed in compliance with contract terms. However, we found issues with vendor evaluations, contract solicitation, billing, and use of restricted funds. Failure to follow procurement policies and procedures reduces the level of transparency and may expose MCLD to legal and financial risks. MCLD should arrange for an independent post-construction financial review of library funds used, and work with the County and Mortenson to obtain any identified reimbursement.

## Background

In June 2007, MCLD secured Board of Supervisors support for a partnership between MCLD and the Maricopa County Parks and Recreation (PD) for a library and nature center at the White Tank Park. At the time, the Board expressed concerns regarding the remote location and possible future annexation of the land surrounding the park by cities or towns. In September 2008, MCLD proposed an alternate location. The Board approved the construction of a 30,000 square foot branch library and the purchase of land in Waddell. MCLD then began the construction contract procurement process and in December 2008, an \$8 million construction contract was awarded to Mortenson Construction for a 29,000 square foot facility. Around the same time, site design work began at the White Tank Park.

In June 2009 the Board approved an IGA between MCLD and Maricopa County whereby PD provided land in the park in exchange for MCLD paying building construction expenses, including the park nature center.



White Tank Library and Nature Center

## Criteria

Article 5 Procurement Code (Construction)	
MC1-502 Responsibilities and Authority	The County Engineer has the authority to adopt policies and implement an Article 5 Procedures Manual clarifying the procurement and management of all Article 5 materials or services. Projects shall not be artificially divided or fragmented to circumvent the statutorily defined limits.
MC1-504D Design-Build	Specific, mandatory procedures are contained in the Article 5 Procedures Manual. The Design-Build Procurement is a qualification-based selection process that produces a short list of qualified respondents. Negotiations are initiated with the highest qualified respondent or a Request for Proposals is sent to all the respondents on the short list.
MC1-506 Sole Source Procurement	Except for direct select, if the need for a sole source procurement should arise on a construction project or to obtain a consultant for an Article 5 procurement, the County Engineer shall have the authority to approve sole source procurement.
Article 5 (Construction) Procedures Manual, Chapters 1, 2, and 3	
<ul style="list-style-type: none"> <li>• Direct selection can be used if the contract amount is less than \$100,000. It can be used for a whole project or in a preliminary phase of a contract. It cannot be used to purposely split the contract in order to remain under the \$100,000 limit.</li> <li>• Each committee member must score, rank, and sign their forms</li> <li>• All evaluation forms must be retained in the contract file</li> </ul>	
Arizona Revised Statutes	
A.R.S. 38-431	All meetings of public bodies shall be public and all persons shall be permitted to attend and listen to the deliberations. Meeting notices should inform the public of the matters to be decided.
A.R.S. 11-913	Funds of the County library district constitute a separate fund and are to be used for the County library.
Mortenson Construction Contract Requirements	
Maximum mark-ups for subcontractor change orders are 10%	
Mortenson is to correct warranty defects at contractor's sole cost and expense	
Vehicles expenses, except for fuel costs, are included in project manager hourly bill rate	

## Condition: Construction Procurement

We compared the White Tank procurement files to 13 procurement controls defined in the Article 5 Procurement Code and Procedures Manual and found that the documents were generally complete and in compliance, except for the retention of the committee members' evaluation forms and the process used to procure consulting services.

Although evaluation summaries were signed by the Procurement Officer and retained in the contract file, the individual committee member's signed evaluations, scored by specific criteria, were not retained. The evaluation summaries only contained total scores by firm and committee member. This is insufficient to determine if the criteria specified in the Request for Qualifications were used in the evaluation.

MCLD exceeded the \$100,000 limit for sole source, direct select procurement, as well as the total fee stated in the contract. Direct selection can be used if the amount is \$100,000 or less. Contracts over \$100,000 require an evaluation committee and the County Engineer's authorization. MCLD paid NCH Associates \$169,966 on the MCLD DC2 contract. In addition, MCLD issued another contract with an overlapping term, leading to the appearance that the contracts were split to remain below the \$100,000 limit. Total payments to date are delineated below.

Payments to NCH Associates (FY 2008 – FY 2011)				
Contract Term	Project Phase	Contract Number	Contract Amount	Payment
06/10/2008 – 06/09/2010	Procurement, Site Design & Construction	MCLD DC2-FY08	\$100,000	\$169,965
11/16/2009 – 11/15/2011	Construction	MCLD DC5-FY10	\$100,000	\$29,025 <sup>4</sup>
Total			\$200,000	\$198,990
Payments exceeded the \$100,000 limit for sole source, direct select procurement.				

*Source: Advantage Accounting System*

## Effect

Evaluation committee scoring and ranking is the key decision point in awarding a construction contract. Failure to retain the selection committee members' evaluations and not competitively bidding construction management services negatively affects the level of transparency and accountability in the procurement process and may expose MCLD to legal and financial risks.

<sup>4</sup> Payments through September 30, 2010.

## Cause

Procurement issues arose because the MCLD Procurement Officer had no prior experience with Article 5 procurement contracts and was not familiar with procurement records retention or consultant contract policies and procedures.

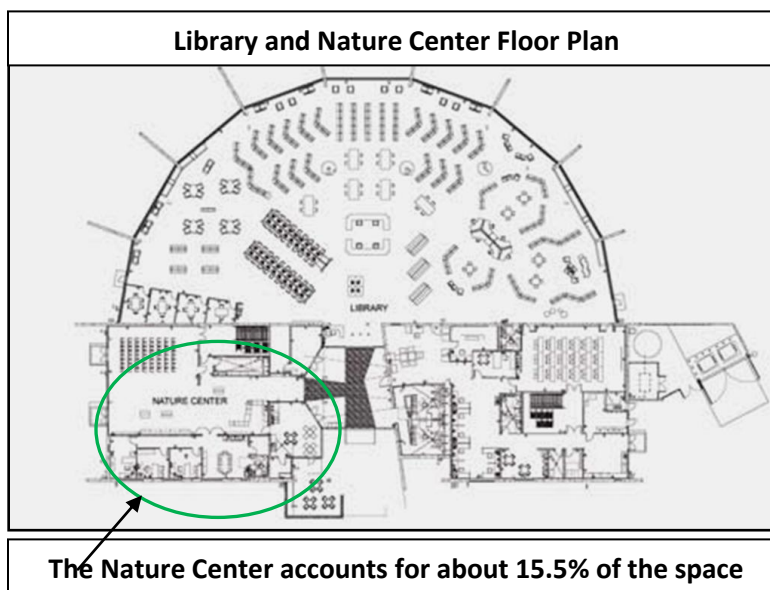
The procurement issues have already been addressed through consolidation of all Article 5 procurement under Public Works, effective July 1, 2010. This change provides greater assurance that internal controls are consistently followed and Article 5 Procurement Officers have the appropriate training and experience.

## Condition: Use of Library Funds

Site design work at the park began approximately five months before the Board formally approved the intergovernmental agreement in June 2009. In addition, the nature center space is 4,500, not 3,300 square feet, as approved. There was insufficient documentation to adequately determine the net cost incurred by MCLD to build the nature center but it appears over \$500,000 in

library funds may have been used for non-library

expenditures. This is inconsistent with A.R.S. 11-913 requiring all MCLD funds be used for the County library. The calculation is outlined below.



Nature Center Cost	
White Tank Nature Center Construction	Cost
Total cost of library and nature center	\$8,683,090
Prorated cost of nature center (15.5% of total cost) based on square footage	\$1,345,879
Cost savings by using White Tank site over Waddell site <sup>5</sup>	(\$ 828,616)
Estimated Library District funds used for Parks Department nature center	\$ 517,263
<b>It appears that restricted library funds were used for the park Nature Center</b>	

*Source: IA analysis of County Financial System data and Board Minutes*

<sup>5</sup> Includes projected cost of purchasing, developing, and improving Waddell site.

## **Effect**

Proceeding with the White Tank site development prior to formal Board approval exposed MCLD to legal and financial risks.

The agreement between PD and MCLD, which was intended to be equitably beneficial, appears to have benefited PD more and therefore, negatively impacted the MCLD Capital Improvement Fund by approximately \$500,000.

## **Cause**

According to MCLD management, they received verbal agreement to proceed with the White Tank site development prior to formal Board approval. MCLD and PD management viewed the IGA arrangement as a strategic partnership allowing the two agencies to draw from one another's customer base. PD provided the land and MCLD provided the funds for the building.

## **Condition: Compliance with Construction Contract Terms**

Almost all costs (99.7%) were billed in accordance with the contract terms and conditions for the \$9,265,000 contract. The three exceptions listed below resulted in a total potential overbilling of approximately \$30,000.

- Mortenson billed the allowable 10% mark-up on subcontractor change orders plus an additional 5%, totaling \$12,911.
- Mortenson invoiced \$16,600 for a two-year warranty and documents retention, which are costs that have not been incurred, but are a reserve for future expenses. However, these costs were already included in the general conditions estimated costs.
- Mortenson incorrectly billed a total of \$486 for vehicle expenses that were included in the project manager's hourly rate.

## **Effect**

As a result of contract terms not being closely adhered to, Mortenson, the contractor, overbilled \$29,997.

## **Cause**

The overbillings occurred because Mortenson misinterpreted the contract concerning allowable charges.

## **Recommendations**

MCLD management should:

- A. Arrange for an independent, post-construction financial review of library funds used, and work with the County to resolve any negative impact to the library fund.
- B. Seek reimbursement from Mortenson Construction for the amounts overbilled.

# Issue 3 Information Technology

## Summary

MCLD lacked formal policies, procedures, and processes for security management, access controls, configuration and change management, disaster recovery planning, segregation of duties, confidential data handling, data completeness and accuracy, and user training. This lack of formal policies has resulted in ad hoc processes and users with inappropriate levels of system access. MCLD's IT management should establish formal IT policies, procedures, and processes, and ensure that policies are followed.

## Criteria

Laws and Policies	
Children's Internet Protection Act	Libraries that receive federal E-Rate funding must filter Internet access for obscenity, child pornography, and other materials harmful to minors.
A.R.S. 41-1354	Libraries must protect the privacy of patrons' library usage records
MCLD Internet Use Policy	Libraries should limit public computer usage to 60 minutes per day and prohibit unauthorized software and the display of sexually explicit material.
COBIT <sup>6</sup> Good IT Control Practices	
Establish and maintain IT security policies, procedures, standards, and roles and responsibilities to minimize the business impact of security vulnerabilities and incidents.	
Establish procedures to ensure the security, completeness, and accuracy of critical data	
Ensure that user access rights are established according to formal procedures, aligned with defined and documented business needs, and regularly reviewed and revised	
Develop a formal employee IT training program	
Set up formal change management procedures to handle all requests for changes	
Develop disaster recovery plans and test regularly to reduce the impact of a major disruption	

<sup>6</sup> COBIT is an international, generally accepted IT control framework, that gives guidance on control requirements, technical issues, and business risks. Internal Audit uses COBIT as an authority for good IT control practices.



## Condition

MCLD's IT group provides enterprise IT services (email, file sharing, Internet access, phones) for MCLD staff, Polaris application hosting for MCLD and other municipalities, and public computer and Internet access at branches for library patrons. We reviewed different sets of related controls for each of these IT functions, including IT general controls for enterprise services, application controls for Polaris, and MCLD policy-related controls for public computer and Internet usage.

Some IT functions, such as Internet filtering and data center operations, provided reasonable assurance that some proper controls were in place to protect critical systems and data. We did, however, find the control weaknesses summarized below.

### *System Access*

Both system-level and physical access controls were managed informally. There were no policies or procedures to control the process of granting users system access and no formal process to ensure user access was removed when needed. Physical security control weaknesses at library branches could allow unauthorized access to IT assets.

There was no formal segregation of duties or document defining what system access should be assigned to employees based on their job function. Specifically, we found that library clerks had the ability to waive fees above the \$6 limit (see Issue 6 for more details).

### *Security*

Security management processes were informal and undocumented. There were no policies or procedure to support IT security, risk assessment and management, security awareness training, or security incident handling.

Password complexity (requiring upper- and lower-case letters, numbers, and special characters) was not enforced for user accounts, resulting in weak passwords.

### *Disaster Recovery*

Disaster recovery planning is informal and undocumented. While many of the technology infrastructure elements for successful system recovery are in place, recovery capabilities have not been tested.

### *Change Management*

Configuration and change management processes were informal. There were no policies or procedures to require that system and application changes pass through a formal approval process prior to operating on a live system. MCLD IT staff used "Server Build Sheets" to document initial system configurations, but these forms were not updated or used consistently.

### *Data Completeness and Accuracy*

MCLD imports critical financial and operational data into Polaris from files produced by its major vendors, Brodart and Baker & Taylor. The current data import process did not include necessary steps to ensure that the data was imported completely and accurately.

### *User Training*

Polaris user training was delivered informally as part of general job training. There were no formal training documents or classes for users to learn appropriate use of Polaris.

### *Data Confidentiality*

Although confidential patron library usage records were restricted from unauthorized access, there were no policies or procedures to govern the process of how and under what circumstances the data should be released.

For a more detailed list of issues, see Appendix A.

## **Effect**

A lack of formal policies, procedures, or processes has led to the proliferation of ad hoc processes, users with inappropriate levels of system access, and inconsistent enforcement of MCLD policy. In the absence of a formal internal control structure, unauthorized changes could significantly harm critical systems, confidential information could be disclosed to unauthorized parties, and critical systems could be vulnerable to malicious activity both from within MCLD and external attackers.

## **Cause**

According to current MCLD IT staff, many of the ad hoc activities were established by a former IT employee. Current MCLD IT staff stated that they recognized the need for formalized, documented policies, procedures, and processes but have not had the resources needed to complete a policy overhaul.

## **Recommendations**

MCLD IT management should create and follow formal policies, procedures, and processes for security management, access controls, configuration and change management, disaster recovery planning, segregation of duties, confidential data handling, data completeness and accuracy, and user training.

# Issue 4 Disposal of Surplus Books

## Summary

MCLD obtained Board approval to donate books, DVDs, CDs, and other materials withdrawn from circulation, as required by County Procurement Code and Arizona Revised Statutes. However, MCLD has not established a formal agreement with the recipients stipulating that groups be nonprofit organizations or how proceeds should be distributed. MCLD should establish a formal agreement with library “Friends” groups and research and evaluate other disposal methods that might provide additional revenues or benefits for MCLD.

## Background

MCLD adopted the philosophy of providing popular print, audio, and video materials to their customers. To make space for new materials, a significant number of items must be withdrawn throughout the year. In FY 2010 MCLD spent \$4.1 million on approximately 136,000 books and other library materials. In that same period, MCLD withdrew over 124,000 items from circulation. According to MCLD management, the primary reason items are withdrawn is because an item is no longer being circulated. Most withdrawn items were donated to the New Friends of the Maricopa County Library District (Friends). Most library branches have a Friends group, most of which are sub-groups of the main group.



Friends Store at Queen Creek Branch

MCLD receives as much as a 46% discount from the cover price for books and a 29% discount for DVDs. According to the MCLD management, the value of popular books and media diminishes significantly a few months after the release date.

## Criteria

Maricopa County Procurement Code MC1-803 (E) Without a public auction, but with the unanimous approval of the Board of Supervisors, surplus material may be sold or leased to any other governmental entity or may be sold or leased, for a specific use, to any solely charitable, social or benevolent nonprofit organization incorporated in or operating in this state.

Arizona Revised Statute 11-251.9 Powers of Board A county, with unanimous consent of the board, without public auction, may sell or lease any county property for a specific use to any solely charitable, social or benevolent nonprofit organization incorporated or operating in this state. A county may dispose of surplus equipment and materials that have little or no value or that are unauctionable in any manner authorized by the board.

## Condition

We reviewed the Board agenda dated January 3, 2002, and found that MCLD obtained approval to donate items to the New Friends of the Maricopa County Library District. However, MCLD had not established a formal agreement with the group and was unaware of how much revenue the Friends group generated, how much funding MCLD received in return, and if the Friends were maintaining their nonprofit status. In addition, MCLD was not able to provide documentation showing how many items were withdrawn and donated to Friends, recycled due to poor condition, transferred to other MCLD branches, or returned to the vendor.

We surveyed four other library organizations to determine how they disposed of their materials. All other libraries had established a formal agreement or contract for donating or selling library materials. Through these formal agreements and contracts, some entities have been able to establish steady revenue streams that are used to support library operations. The table below summarizes our results.

Book Withdrawal Benchmarking Survey Results				
Organization	Primarily Popular Materials	Formal Agreement	Number of Items Withdrawn Annually	Estimated Annual Revenues <sup>7</sup>
Maricopa County	Yes	No	124,000*	\$147,436
Harris County Library District	Yes	Yes	Data not available	\$18,000
Pima County Library District	Yes	Yes	300,000*	\$200,000
Phoenix Library System	Yes	Yes	Data not available	All proceeds returned to library, amount was not available
Clark County Library	Yes	Yes	400,000*	\$100,000
*Pima and Clark County have higher withdrawals because they operate the primary library system for all residents of those counties, while residents in Maricopa County can choose between the County's library system and other systems operated by major cities within the County.				

*Source: IA Benchmarking Survey*

## Effect

MCLD may be donating materials that, combined, have sufficient value that they do not qualify to be donated. Additionally, MCLD may not be maximizing revenues that could be generated from selling the withdrawn items (which could create additional funds for other library programs and materials).

<sup>7</sup> Reported by various libraries (unaudited)

MCLD could be unintentionally in violation of the Procurement Code and Arizona Revised Statutes if it does not establish requirements to specify use of donated items, and ensure that the Friends group maintains its nonprofit status or if it donates to groups other than the specific group approved by the Board.

### **Cause**

The reason MCLD did not have a formal agreement in place is because MCLD management believed that the Board agenda item restricted all donations to the Friends group and that a formal agreement was not necessary.

### **Recommendations**

MCLD management should:

- A.** Establish a formal agreement with all Friends of the Library groups receiving donations and ensure donations to all groups are approved by the Board. At a minimum, agreements should specify how proceeds from the sale of library materials will be used or distributed and organizational requirements.
- B.** Consider and evaluate other disposal methods that might provide additional revenues or benefits for MCLD from the sale or donation of library materials.

# Issue 5 Cash Controls

## Summary

MCLD has established cash handling policies and procedures, which address most cash controls. We conducted surprise cash counts at eight branches and reviewed 15 monthly bank reconciliations; there were no material cash shortages, and bank reconciliations were being completed regularly. However, cash handling policies were not always followed, and we noted several control weaknesses. MCLD is exposed to an increased risk of cash theft and loss when funds are inadequately secured and improperly reconciled. Deposits not made in a timely manner expose MCLD to potential fraud and theft. MCLD should ensure receipts are adequately secured, cashiers comply with cash handling policies, and deposits are prepared and controlled in accordance with County policy.

## Criteria

Cash Handling Requirements
Maricopa County Policy A2500, Petty Cash Fund, and Change Fund Policy and Manual
<ul style="list-style-type: none"><li>• Change fund monies and related documents must be kept in a secure location</li><li>• Keys and lock combinations should be restricted</li><li>• The custodian and supervisor must reconcile change funds daily</li></ul>
Maricopa County Policy A2504, Outside Bank Accounts
<ul style="list-style-type: none"><li>• Submit all public monies to the County Treasurer</li><li>• Prepare/maintain bank reconciliations on a monthly basis, review, and approve</li><li>• Retain all reconciliations, including back-up documentation, for three years</li><li>• Ensure authorized signers do not perform any bank reconciliations</li></ul>
Library District Cash Handling Policy
<ul style="list-style-type: none"><li>• Cash should be adequately safeguarded and deposited</li><li>• Cash should be accurately recorded in Maricopa County Financial System</li><li>• Personnel should have direction and guidance on the appropriate handling of cash and payments</li><li>• Risk to individuals should be minimized</li><li>• A strong internal control environment should exist</li><li>• Branch collections should be deposited within 72 hours after the end of the business week</li><li>• A deposit reconciliation log should be maintained</li></ul>

### Condition: Surprise Cash Counts

We counted cash at eight branches and found no significant shortages. However, we noted several instances where cash was not properly secured and policies were not followed.

Cash Handling Weaknesses	
<ul style="list-style-type: none"><li>• Deposits not made timely</li></ul>	<ul style="list-style-type: none"><li>• Office or branch doors not secured</li></ul>
<ul style="list-style-type: none"><li>• Cash drawers unsecured</li></ul>	<ul style="list-style-type: none"><li>• Reconciliations not done daily or no reconciliation log</li></ul>
<ul style="list-style-type: none"><li>• Checks not endorsed</li></ul>	<ul style="list-style-type: none"><li>• Safe and/or safe key not secured</li></ul>
<ul style="list-style-type: none"><li>• Cashiers sharing computer log-ins</li></ul>	<ul style="list-style-type: none"><li>• Staff preparing deposits and performing cashier functions</li></ul>

For a detailed list of findings by branch, see Appendix B.

### Condition: Branch Deposits and Bank Reconciliations

We reviewed a sample of three months deposits for eight branches and 15 monthly bank reconciliations. We checked the accuracy of the reconciliations and traced each deposit selected to the MCLD deposit log, County Treasurer's System, and the County Financial System. We found bank reconciliations were prepared for all 15 months reviewed and there were no errors or unreconciled differences; however, we noted:

- 15 bank reconciliations did not contain a preparation date or a secondary signature, which are necessary to determine the timeliness of the reconciliation, and the oversight by management
- 14 of 15 bank reconciliations did not contain the signature of the preparer, which is necessary to determine proper segregation of duties
- 6 of 8 branches did not maintain deposit reconciliation logs
- 1 of 8 branches did not prepare deposits within 72 hours

### Effect

When funds are not adequately secured, properly deposited, and adequately reconciled, MCLD is exposed to an increased risk of cash theft and loss.

### Cause

Cash handling weakness are often caused by weak enforcement and insufficient training. MCLD employees were not always aware of cash handling, deposit, and reconciliation requirements, and established policies were not always enforced, resulting in the various weaknesses noted. In addition, MCLD did not document bank reconciliation procedures which would provide additional guidance.

Delays in deposits are the result of some branches sending their cash receipts to either another branch or the Library Administration office which delays the deposit reaching the bank.

## **Recommendations**

MCLD management should:

- A.** Require employees to receive sufficient cash handling training in order to consistently comply with policies and procedures and enforce compliance.
- B.** Evaluate alternative procedures for transporting deposits to ensure security and promptness of deposits.
- C.** Document and implement policies and procedures for preparing bank reconciliations.



# Issue 6 Fee Waivers

## Summary

MCLD policy requires that staff obtain management approval prior to waiving fines and fees above \$6. However, it appears that MCLD branch staff has the ability to waive fines and fees above \$6 without management approval. We sampled 49 transactions and found that 71% of the waivers did not have management approval. Lack of controls and inadequate management oversight can expose MCLD to fraud and abuse. MCLD should strengthen system controls and improve employee awareness of policies and procedures.

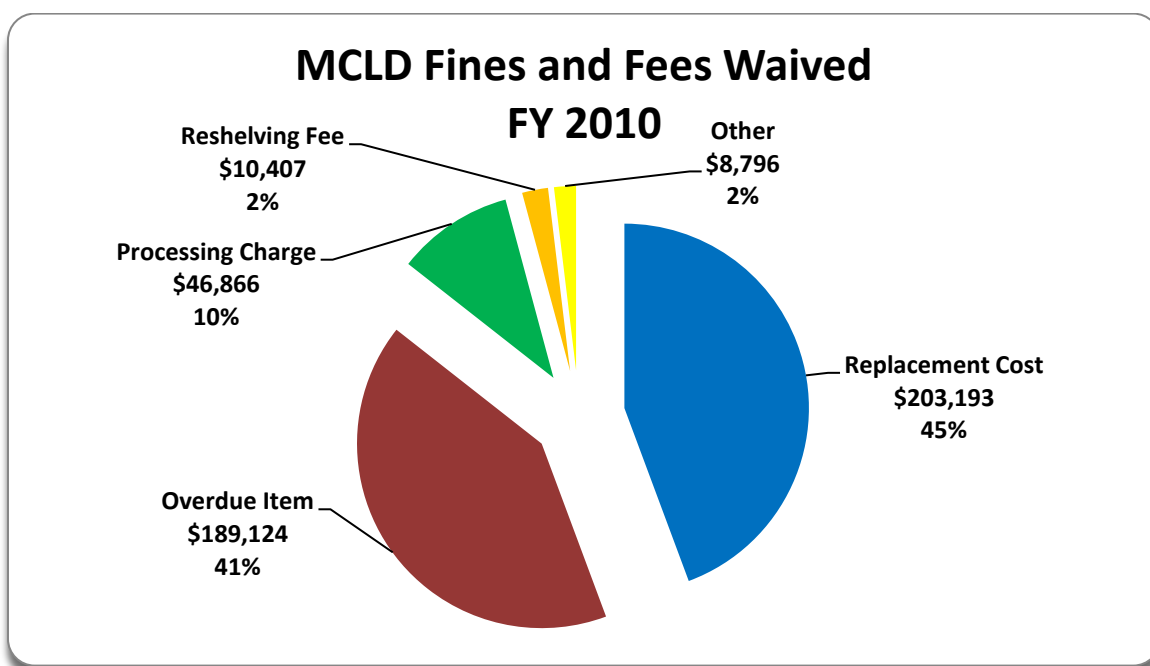
## Criteria

MCLD's Circulation Policy states that branch staff may waive fines totaling less than \$6. Fines over \$6 must be approved by a supervisor, manager, or manager's designee. For lost material, patrons must pay replacement cost, any overdue fine, and a \$5 processing fee. If material is found and returned within 30 days of payment, MCLD will refund the cost of the materials only.

According to MCLD management, branch managers instruct cashiers to enter explanations in a notes field within the customer's account for every fine or fee waived. The explanation should also include the branch manager or supervisor's approval if the fee exceeds \$6.

## Condition

In FY 2010, MCLD waived 30,333 fines and fees totaling \$458,386 as illustrated below.



*Source: IA analysis of waived fees*

### *Waiving Customer Fees*

For a sample of 49 fee waiver transactions, we reviewed the transaction history and associated notes for each patron record in the Polaris system and found:

- 21 (43%) did not have explanations in the patron record
- 27 (55%) were over \$6 and processed by a cashier not by a manager or supervisor
- 35 (71%) were not approved by a manager or supervisor

### *Lost or Stolen Materials*

Forty-five percent of the fees waived in FY 2010 are attributed to costs associated with replacing lost or stolen materials. If the customer finds and returns the lost materials, the branch will waive the replacement costs from the customer's account, but the customer is still responsible for paying any overdue charges. However, during FY 2010 MCLD employees waived \$37,149 in overdue charges associated with lost or stolen materials returned to libraries.

### **Effect**

Failure to obtain management approval for waiving of fines and fees can result in lost revenue and, potentially, fraud, waste, and abuse.

### **Cause**

Employees were able to waive fines and fees above the \$6 limit because employee profiles in Polaris are not set up to prevent it and because they were not familiar with, and management was not consistently enforcing, established policies and procedures.

The waiving of a customer's fine or fee is at the discretion of branch or MCLD administration management. MCLD's vision is to focus on customer satisfaction and MCLD management continually conveys that message to staff at the branch level. Waiving a customer's fine or fee is one avenue that branch staff uses in order to satisfy a disgruntled customer.

### **Recommendations**

MCLD management should:

- A. Review employee profiles in Polaris to ensure employees are prohibited from waiving customer fees above \$6.
- B. Clarify and enforce policies and procedures regarding waivers.

## APPENDIX A – Detailed Information Technology Issues

Finding	Criteria	Effect	Cause	Recommendation
<b>System Access</b>				
No formal policies or procedures for granting access to systems (Active Directory and Polaris)	COBIT: DS5.4 – User Account Management	Users could have inappropriate access to critical systems, potentially resulting in malicious attacks	Former IT staff established the informal process and current staff have not revised and formalized it	Create formal policies for establishing, changing, and removing user access to systems
Password complexity (requiring upper and lower case, numbers, special characters) was not enforced	COBIT: DS5.4 – User Account Management DS5.10 – Network Security	System passwords were weak, which leaves systems at greater risk for unauthorized access to sensitive data	Former IT staff created weak password policies that current IT staff have not changed	Enable system settings to enforce password complexity
No process in place to regularly review user access to ensure levels of access are appropriate	COBIT: DS5.4 – User Account Management	Management is unaware of access level issues, which could result in inappropriate access to critical systems and sensitive data	No policy or procedure in place to require access reviews; library management (not IT) should drive the review process	Develop a formal user access review process in conjunction with library management
No formal segregation of duties to guide assigning employee access to systems	COBIT: DS5.3 – Identity Management PO4.11 – Segregation of Duties	Users have been granted access to system functions beyond job needs, which resulted in unauthorized fee waivers	No policy or procedure in place to require segregation of duties enforcement	Create a documented segregation of duties matrix and apply it to current and future user accounts

Finding	Criteria	Effect	Cause	Recommendation
<b>Security</b>				
No formal IT policies, procedures, or program exist for IT security	COBIT: PO4.8 – Responsibility for Risk, Security, and Compliance DS5.1 – Management of IT Security DS5.2 – IT Security Plan ME2.6 – Internal Control at Third Parties	Information security is ad hoc and performed by system administrators, which could result in security weaknesses in critical systems and lead to malicious attacks	Current IT staff was aware of the need for formal security but lacked the resources to create policies and procedures	Document IT security policies and procedures and create a formal security management program
Physical security over IT assets was weak at 3 of 6 libraries visited	COBIT: DS12.2 – Physical Security Measures DS12.3 – Physical Access	IT assets were vulnerable to theft or tampering, and could be used to access other critical library systems	There are no policies or procedures addressing physical security; library employees are not consistently aware of the need to secure branch IT assets	Include strong physical security requirement in IT security policies and procedures; reinforce the need to secure IT assets to branch employees
<b>Disaster Recovery</b>				
Disaster recovery infrastructure is in place, but there is no documented disaster recovery plan and recovery has not been tested	COBIT: DS4.2 – IT Continuity Plans DS4.5 – Testing of the IT Continuity Plan	Management does not have reasonable assurance that it could recover from a disaster, which could result in unexpected loss of Library services	There are no policies or procedures that require creation or testing of a disaster recovery plan; IT staff was aware of the need for a plan but lacked the resources to create it	Create a formal, documented disaster recovery plan based on the current IT environment and test recovery capabilities

Finding	Criteria	Effect	Cause	Recommendation
<b>Change Management</b>				
No formal application and system configuration or change management policies or procedures exist; existing configuration management forms are not consistently used	COBIT: AI6.1 – Change Standards and Procedures AI6.3 – Emergency Changes DS9.1 – Configuration Repository and Baseline DS9.2 – Identification and Maintenance of Configuration Items DS9.3 – Configuration Integrity Review	IT staff could make unauthorized changes to critical systems, which could result in system performance issues or outages	Configuration and change management is performed by system administrators; IT staff recognizes the need for formal processes but lacks the resources to develop a system	Establish formal application and system configuration and change management policies and procedures
<b>Data Completeness and Accuracy</b>				
Current data import processes did not include necessary steps to ensure that the data was imported completely and accurately	COBIT: DS11.1 – Business Requirements for Data Management”	Lack of regular review of the data import log files may lead to undetected discrepancies between system records and actual inventory, which could result in negative financial impact to MCLD	IT staff assumed that the completion message at the end of the import process was sufficient to determine if the import was successful	Formally review the data import log files for all future data imports to validate the completeness and accuracy of the data import process

Finding	Criteria	Effect	Cause	Recommendation
<b>User Training</b>				
No formal IT training program exists for employees (Polaris application training, security training)	COBIT: DS7.1 – Identification of Education and Training Needs DS7.2 – Delivery of Training and Education DS7.3 – Evaluation of Training Received	Users may not be trained how to properly use systems and may not be aware of critical system functionality to effectively perform job duties	Informal job shadowing has been the standard systems training procedure and no requests have been made to improve training	Develop formal training materials and/or a class to educate user on IT systems and security
<b>Data Confidentiality</b>				
No policies or procedures for protecting or disclosing confidential patron data	A.R.S. 41-1354: Public libraries must protect confidential data from disclosure COBIT: DS11.6 – Security Requirements for Data Management	Confidential information could be released to unauthorized parties	The need for a policy addressing confidential data disclosure and A.R.S. compliance was not recognized by staff	Establish formal policies and procedures for the security, handling, and release of confidential information

## APPENDIX B – Cash Count Results

Cash Count Results		
Branch	Amount	Exceptions/Comments
Ed Robson Branch	\$100	<ol style="list-style-type: none"> <li>1. Safe key not adequately secured</li> <li>2. One cashier using another's log in</li> <li>3. Safe not secured</li> <li>4. Back office door remained open</li> <li>5. Money not counted or reconciled daily</li> <li>6. No reconciliation log</li> <li>7. Overages/shortages not reported to a supervisor</li> <li>8. No supporting documentation for weekly deposits</li> </ol>
Goodyear Branch	\$120	<ol style="list-style-type: none"> <li>1. Cashiers do not log off at shift change</li> <li>2. No reconciliation log</li> <li>3. Too many employees have safe access</li> </ol>
Litchfield Park Branch	\$240	<ol style="list-style-type: none"> <li>1. Safe key not adequately secured</li> <li>2. No reconciliation log</li> </ol>
Sun City Branch	\$500	<ol style="list-style-type: none"> <li>1. Safe key not adequately secured</li> <li>2. No reconciliation log</li> </ol>
Perry Branch	\$500	<ol style="list-style-type: none"> <li>1. No supporting documentation for weekly deposits</li> <li>2. Safe/bank bag keys not adequately secured</li> <li>3. Branch manager and circulation supervisor prepare deposits and perform cashier functions</li> <li>4. No reconciliation log</li> </ol>
Northwest Regional Branch	\$600	<ol style="list-style-type: none"> <li>1. No reconciliation log</li> <li>2. Monies not deposited within 72 hours</li> <li>3. Cash drawers left unattended/unsecured</li> </ol>
Queen Creek Branch	\$600	<ol style="list-style-type: none"> <li>1. Checks not endorsed</li> <li>2. Change fund short \$.25</li> </ol>
Southeast Regional Branch	\$1,000	<ol style="list-style-type: none"> <li>1. Change fund \$1.44 over</li> <li>2. Office area not secure</li> </ol>
<b>Total Change Fund</b>	<b>\$3,660</b>	

## **District Response**



**AUDIT RESPONSE**  
**LIBRARY DISTRICT March 25, 2011**

**Issue #1:**

Procurement documents were complete, however, contract revisions affected cost effectiveness, and renewals were issued despite concerns. In addition, we found \$81,000 in overpayments and accumulated credits due to unsupported discount rates or incorrect price adjustments, and approximately \$96,000 that could be saved annually by purchasing rather than leasing DVDs.

**Recommendation A:** Work with Materials Management regarding any changes to contract terms and ensure that the Library Materials and Services contract:

- Thoroughly explains all requirements and services, includes required service levels and penalties, and establishes problem escalation procedures
- Requires that invoices contain sufficient detail (such as quantities, amounts, and discount rates) to facilitate proper oversight

**Response:** Concur – in process. Renewals were made at the direction of Materials Management due to the changes being made in the procurement to address the concerns and to the inability to get a contract in place in time to keep the flow of materials going to the libraries. We have finished the procurement and are currently transitioning to the contract. It will address definition issues, invoice issues as well as pricing issues.

**Target Completion Date:** 09/30/11

**Benefits/Costs:** Increased accountability and control over costs and reduced expenditures.

**Recommendation B:** Create procedures requiring proper contract oversight and ensure employees are familiar with those procedures and enforce contract terms.

**Response:** Concur - in process. We have finished the procurement and are currently transitioning to the contract. It will address definition issues, invoice issues as well as pricing issues. The new contract will improve the ability of the District and its staff to enforce contract terms.

**Target Completion Date:** 09/30/11

**Benefits/Costs:** Increased control over accuracy and accountability.

**Recommendation C:** Seek reimbursement or credits for overpayments.

Response: Concur – will implement with modifications. The District is reconciling the DVD lease plan credits to insure it gets all of the credit it is entitled to. The District agreed with the vendor for the \$3.05 fulfillment fee for the summer reading program incentive books and the vendor acted in good faith. The District will not seek reimbursement. The District will seek reimbursement for the verifiable inappropriate discounts used by print vendor (audit amount of \$39,683). The District will seek reimbursement for the inappropriate discount rate used by the audio/video vendor (audit amount \$10)

Target Completion Date: 12/31/11

Benefits/Costs: Reimbursement for amounts overpaid.

**Recommendation D:** Consider buying rather than leasing DVDs if doing so would result in cost savings.

Response: Concur – in process

Target Completion Date: 07/31/11

Benefits/Costs: Reduced future expenditures.

**Issue #2:**

MCLD was mostly in compliance with procurement requirements and almost all costs were billed in compliance with contract terms. However, we found issues with vendor evaluations, contract solicitation, billing, and use of restricted funds.

**Recommendation A:** Arrange for an independent, post-construction financial review of library funds used, and work with the County to resolve any negative impact to the library fund.

Response:

Concur—will implement with modifications. The Library District will perform the analysis with assistance from Maricopa County Real Estate.

Target Completion Date: 06/30/11

Benefits/Costs: True analysis of final costs of the project and contributions from all entities involved.

**Recommendation B:** Seek reimbursement from Mortenson Construction for the amounts overbilled.

Response: Concur – will implemented with modifications. The Library District received the \$486 credit for vehicle expenses in the October 2010 billing and the Library District's

attorney performed a legal review of situation and contract. He states the Library District should not seek any additional reimbursements from Mortenson Construction.

Target Completion Date: 01/04/11

Benefits/Costs: Reimbursed for vehicle expense paid.

**Issue #3:**

MCLD lacked formal policies, procedures, and processes for security management, access controls, configuration and change management, disaster recovery planning, segregation of duties, confidential data handling, data completeness and accuracy, and user training.

**Recommendation A:** Create and follow formal policies, procedures, and processes for security management, access controls, configuration and change management, disaster recovery planning, segregation of duties, confidential data handling, data completeness and accuracy, and user training.

Response: Concur--in process.

Target Completion Date: 12/31/11

Benefits/Costs: Increased security and compliance with laws.

**Issue #4:**

MCLD obtained Board approval to donate books, DVDs, CDs, and other materials withdrawn from circulation, as required by County Procurement Code and Arizona Revised Statutes. However, MCLD has not established a formal agreement with the recipients stipulating that groups be non-profit organizations or how proceeds should be distributed.

**Recommendation A:** Establish a formal agreement with all Friends of the Library groups receiving donations and ensure donations to all groups are approved by the Board. At a minimum, agreements should specify how proceeds from the sale of library materials will be used or distributed and organizational requirements.

Response: Concur – in process

Target Completion Date: 12/31/11

Benefits/Costs: More transparency of how the proceeds of the donations from the Library District are spent.

**Recommendation B:** Consider and evaluate other disposal methods that might provide additional revenues or benefits for MCLD from the sale or donation of library materials.

Response: Concur - completed

Target Completion Date: 03/31/11

Benefits/Costs: Increase revenues from withdrawn Library materials.

**Issue #5:**

MCLD has established cash handling policies and procedures, which address most cash controls. We conducted surprise cash counts at eight branches and reviewed 15 monthly bank reconciliations; there were no material cash shortages and bank reconciliations were being completed regularly. However, cash handling policies were not always followed, and we noted several control weaknesses.

**Recommendation A:** Require employees to receive sufficient cash handling training in order to comply with policies and procedures and consistently enforce compliance.

Response: Concur – in process. Regular training and refreshers being planned and will be implemented.

Target Completion Date: 6/30/11

Benefits/Costs: Increased control over accuracy and accountability.

**Recommendation B:** Evaluate alternative procedures for transporting deposits to ensure security and promptness of deposits.

Response: Concur – in process

Target Completion Date: Ongoing – it is a constant evaluation

Benefits/Costs: Increased security of monies.

**Recommendation C:** Document and implement policies and procedures for preparing bank reconciliations.

Response: Concur – in process

Target Completion Date: 04/30/11

Benefits/Costs: Increased control over accuracy and accountability.

**Issue #6:**

MCLD policy requires that staff obtain management approval prior to waiving fines and fees above \$6. However, it appears that MCLD branch staff has the ability to waive fines and fees above \$6 in the Polaris system without management approval. We sampled 49 transactions and found that 71% of the waivers did not have management approval.

**Recommendation A:** Review employee profiles in Polaris to ensure employees are prohibited from waiving customer fees above \$6.

Response: Concur – in process

Target Completion Date: 12/31/11

Benefits/Costs: Increased security and accountability.

**Recommendation B:** Clarify and enforce policies and procedures regarding waivers.

Response: Concur - in process

Target Completion Date: 12/31/11

Benefits/Costs: Increased security and accountability.

Approved By :

  
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Library Director

3/25/2011  
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Date

  
\_\_\_\_\_  
Assistant County Manager

3/29/2011  
\_\_\_\_\_  
Date

  
\_\_\_\_\_  
County Manager

3/30/11  
\_\_\_\_\_  
Date